

ОАО SIBUR Holding

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2007

ZAO PricewaterhouseCoopers Audit
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of OAO SIBUR Holding:

- 1 We have audited the accompanying consolidated financial statements of OAO SIBUR Holding and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
31 March 2008

ОАО СИБУР HOLDING
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2007
(In millions of Russian Roubles)



Notes		31 December 2007	31 December 2006
	Assets		
	Current assets		
8	Cash and cash equivalents	3,942	2,804
10	Trade and other receivables	12,053	5,859
	Advances and prepayments	3,473	2,595
11	Prepaid taxes and recoverable VAT	11,524	9,816
12	Inventories	16,353	13,426
13	Other current assets	792	7,027
		48,137	41,527
	Non-current assets		
14	Property, plant and equipment	62,890	47,638
29	Goodwill	2,472	-
15	Investments in associates and joint ventures	4,345	1,613
10	Trade and other receivables	307	146
	Advances and prepayments	5,145	1,201
11	Prepaid taxes and recoverable VAT	55	1,017
16	Other non-current assets	1,118	513
		76,332	52,128
	Total assets	124,469	93,655
	Liabilities and equity		
	Current liabilities		
17	Trade and other payables	5,876	4,363
	Advances received	2,313	1,451
18	Taxes payable	2,908	2,413
19	Short-term borrowings and current portion of long-term borrowings	10,510	707
21	Current portion of restructured liabilities	598	447
19	Short-term promissory notes payable	150	223
		22,355	9,604
	Non-current liabilities		
20	Long-term borrowings	9,718	6,311
22	Deferred tax liabilities	3,530	3,007
21	Restructured liabilities	799	1,054
18	Restructured tax liabilities	80	119
	Other non-current liabilities	1,319	1,013
		15,446	11,504
	Total liabilities	37,801	21,108
2, 23	Shareholders' equity		
	Share capital	40,100	40,100
	Share premium	215	3,120
32	Treasury shares	(3,372)	-
	Retained earnings	45,682	27,166
	Total equity attributable to Group shareholders	82,625	70,386
31	Minority interest	4,043	2,161
	Total equity	86,668	72,547
	Total liabilities and equity	124,469	93,655

D.V. Konov
President
31 March 2008

A.N. Filippovskiy
Chief Financial Officer
31 March 2008

The accompanying notes on pages 7 to 43 are an integral part of these consolidated financial statements.

ОАО СИБУР HOLDING
IFRS CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(In millions of Russian Roubles, except for per share amounts)



Notes		Year ended 31 December	
		2007	2006
6, 24	Revenue	142,651	121,933
25, 26	Operating expenses	(113,926)	(94,205)
	Gain on disposal of investments	171	451
	Operating profit	28,896	28,179
27	Finance income	2,320	686
27	Finance expenses	(1,194)	(1,020)
15	Share of net income of associates and joint ventures	604	639
	Profit before income tax	30,626	28,484
22	Current income tax expense	(8,479)	(7,045)
22	Deferred income tax expense	434	84
	Income tax expense	(8,045)	(6,961)
	Profit for the year	22,581	21,523
	Profit is attributable to:		
31	Minority interest	316	165
	Group shareholders	22,265	21,358
9	Earnings per ordinary share, basic and diluted (in Russian Roubles per share)	570	533

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31 March 2008

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31 March 2008

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ОАО SIBUR HOLDING
IFRS CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(In millions of Russian Roubles)



Notes	Year ended 31 December	
	2007	2006
28	Operating activities	
	Net cash from operating activities	22,932
	Cash flows from investing activities	11,493
	Purchase of property, plant and equipment	(17,277)
	Proceeds from sale of property, plant and equipment	(7,496)
2, 29	Acquisition of interest in subsidiaries, net of cash acquired	311
15	Acquisition of interest in associates and joint ventures	(7,863)
15	Dividends received	(173)
	Proceeds from sale (acquisition) of investments	(2,464)
	Net cash used in investing activities	(75)
	Cash flows from financing activities	(27,467)
32	Purchase of treasury shares	(3,372)
	Repayment of restructured liabilities	(315)
	Proceeds from long-term borrowings	(616)
	Repayment of long-term borrowings	7,075
	Proceeds from short-term borrowings	(622)
	Repayment of short-term borrowings	(2,771)
	Lease payments	21,846
23	Dividends paid	(14,330)
	Proceeds from bonds issue	(403)
	Interest received	(3,931)
	Interest paid	(1,063)
	Other	-
	Net cash from (used in) financing activities	1,498
	Effect of exchange rate changes on cash and cash equivalents	(25)
	Net increase in cash and cash equivalents	848
	Cash and cash equivalents, at the beginning of reporting year	2,804
	Cash and cash equivalents, at the end of reporting year	2,804

D.V. Konov
President
31 March 2008

A.N. Filippovskiy
Chief Financial Officer
31 March 2008

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OAO SIBUR HOLDING
IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007
(In millions of Russian Roubles)



Notes	Number of shares outstanding (millions)	Share capital	Attributable to Group shareholders				Minority interest	Total equity	
			Treasury shares	Share premium	Retained earnings	Total			
	Balance as of 31 December 2005	40	40,100	-	3,120	8,114	51,334	2,133	53,467
	Net income for the year	-	-	-	-	21,358	21,358	165	21,523
2, 29	Acquisition of shares in subsidiaries	-	-	-	-	(1,243)	(1,243)	(137)	(1,380)
23	Dividends declared	-	-	-	-	(1,063)	(1,063)	-	(1,063)
	Balance as of 31 December 2006	40	40,100	-	3,120	27,166	70,386	2,161	72,547
	Net income for the year	-	-	-	-	22,265	22,265	316	22,581
2, 29	Acquisition of shares in subsidiaries	-	-	-	(2,905)	182	(2,723)	1,566	(1,157)
32	Acquisition of treasury shares	(2)	-	(3,372)	-	-	(3,372)	-	(3,372)
23	Dividends declared	-	-	-	-	(3,931)	(3,931)	-	(3,931)
	Balance as of 31 December 2007	38	40,100	(3,372)	215	45,682	82,625	4,043	86,668

D.V. Konov
President
31 March 2008

A.N. Filippovskiy
Chief Financial Officer
31 March 2008

The accompanying notes on pages 7 to 43 are an integral part of these consolidated financial statements.



1 NATURE OF OPERATIONS

OAO SIBUR Holding and its subsidiaries (the "Group") form a vertically integrated petrochemical business. The Group purchases raw materials (primarily associated petroleum gas), produces and markets semi-finished goods and end petrochemical products domestically and internationally. Group's sales of petrochemical and other products do not fluctuate on a seasonal basis.

Assets of the Group are located in the Russian Federation.

OAO Gazprom, a company controlled by the Government of Russian Federation, and its subsidiaries ("Gazprom") is the ultimate parent entity of the Group.

The weighted average number of full time employees during years 2007 and 2006 was 81.2 and 85.3 thousand, respectively.

2 GROUP RESTRUCTURING

In 2005 the Board of Directors of Gazprom initiated the restructuring of the Group. Under the restructuring plan, all operating assets and business activities of the Group were transferred from OAO AK Sibur ("AK Sibur") to OAO AKS Holding, a newly formed entity, subsequently renamed to OAO SIBUR Holding ("Sibur Holding").

The new entity was formed by contribution of shares in operating assets of the Group by AK Sibur and its subsidiaries. Sibur Holding is the accounting successor of AK Sibur. Accordingly, the consolidated financial statements represent the historical consolidated financial statements of AK Sibur. The Group has retained the ability to control AK Sibur's assets and effectively acts as a guarantor of AK Sibur's debt under the restructuring agreements ("amicable agreements"). AK Sibur was therefore accounted for as a subsidiary of Sibur Holding with Gazprom's 50.6 percent shareholding of RR 2,905 recorded within shareholders' equity. To complete the restructuring the Group acquired 50.6 percent interest in AK Sibur in May 2007. The difference of RR 28 between the consideration paid of RR 2,933 and Gazprom's interest in AK Sibur of RR 2,905 was charged to retained earnings.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting ("RAR"). The financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.



3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in the consolidated income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Sibur Holding and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by Sibur Holding. Minority interest forms a separate component of the Group's equity.

Purchases of minority interests. The difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded in shareholders' equity.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the purchase accounting method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets. The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.



3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within finance income and finance expense in the period in which they arise.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet (Note 7).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Cash and cash equivalents. Cash and cash equivalents comprise cash on hand and demand deposits which are readily converted to cash and have an original maturity of three months or less.

Accounts receivable. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 360 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables. The amount of the provision is recognised in the income statement within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Fair value estimation. The fair value of accounts receivable for disclosure purposes is estimated by discounting the value of expected cash flows at the market rate of interest for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments (incremental cost of debt).

The fair value of publicly quoted financial instruments for disclosure purposes is estimated based on current market value at the close of business on the reporting date.



3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Property, plant and equipment. Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated income statement.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Buildings	20-70
Facilities	10-20
Machinery and equipment	5-15
Transport	5-15

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Financial leases. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.



3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge or credit comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than income tax are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that there are sufficient taxable temporary differences or that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Value added tax. Output value added tax (VAT) related to sales is payable to tax authorities upon the earlier of (a) collection of the receivables from customers and (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT recoverable and VAT payable) is recognised on a gross basis and disclosed separately as current asset and short-term liability, while VAT related to the long-term portion of restructured liabilities is included within non-current assets. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT liability is maintained until the debtor is written off for tax purposes.

Borrowings. Borrowings are recognised initially at the fair value of the proceeds received which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the period in which they are incurred regardless of how the borrowings are applied.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.



3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are reassessed at each reporting date and changes in the provisions are reflected in the income statement within operating expenses.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as share premium.

Treasury shares. Where the Group companies purchase equity share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. The gains (losses) arising from treasury shares transactions are recognised as an accumulated deficit movement in the consolidated statement of changes in shareholders' equity, net of associated costs including taxation.

Foreign currency transactions. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Russian Rouble (RR) which is the Group's functional and presentation currency.

Monetary assets and liabilities, which are held by the Group entities as of 31 December 2007 and 2006 and denominated in foreign currencies, are translated into RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised as exchange gains or losses in the consolidated income statement.

The official US dollar (USD) to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 24.55 and 26.33 as of 31 December 2007 and 2006, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 35.93 and 34.70 as of 31 December 2007 and 2006, respectively.

Through early 2006, the Russian rouble was not a convertible currency in most countries outside of the former Soviet Union and, further, the Group was required to convert ten percent of its hard currency proceeds into Russian roubles. During the first half of 2006, substantially all restrictions on hard currency transactions were lifted and the rights of the government of the Russian Federation and those of the Central Bank of the Russian Federation to impose such restrictions were waived.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight line basis over the expected lives of the related assets.



3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition. Revenues from sales of goods are recognised for financial reporting purposes at the point of transfer of risks and rewards of ownership, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales are shown net of VAT, excise taxes and other similar compulsory payments. Revenues are measured at the fair value of the consideration received or receivable.

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of participating shares outstanding during the reporting year.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group has three primary business segments (petrochemical, tires and other) and five secondary geographical segments (Russia, CIS states, China, Western Europe and Other).

Comparative amounts. Prior year amounts have been reclassified within categories of sales and operating expenses to conform with current year presentation with no effect to shareholders' equity or profit.

	Year ended 31 December 2006	
	As originally presented	As adjusted
Sales of petrochemical products		
Other polymers	13,997	14,778
Other refined products	5,334	4,553
Operating expenses		
Materials	38,848	39,982
Rent expenses	987	2,611
Taxes other than on income	922	713
Gas for own needs	2,370	1,236
Other	5,220	3,805
Finance income	1,110	686
Finance expenses	1,444	1,020

New accounting developments.

Beginning 1 January 2007, the Group has adopted the following standards and interpretations:

IFRS 7, 'Financial instruments: Disclosures' and the complementary Amendment to IAS 1, 'Presentation of Financial Statements – Capital Disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.



3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other new interpretations. The Group has also adopted the following new interpretations:

- IFRIC 7, *Applying the Restatement Approach under IAS 29*;
- IFRIC 8, *Scope of IFRS 2*;
- IFRIC 9, *Reassessment of Embedded Derivatives*;
- IFRIC 10, *Interim Financial Reporting and Impairment*.

These interpretations do not have any impact on the Group's financial statements.

Recently, the International Accounting Standards Board published the following new standards and interpretations which have not been early adopted by the Group.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the new IFRS 8 will have on disclosures in its consolidated financial statements.

IAS 23 (Revision), Recognition of Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revision removed the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing what impact the new IFRS will have on its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.



3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Other new interpretations and amendments. The Group has not early adopted the following other new interpretations and amendments:

- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, *Customer loyalty programmes* (issued in June 2007; effective for annual periods beginning on or after 1 July 2008)
- IFRIC 14, *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008);
- *Puttable financial instruments and obligations arising on liquidation - IAS 32 and IAS 1 Amendment* (effective from 1 January 2009);
- *Vesting Conditions and Cancellations - Amendment to IFRS 2, Share-based Payment* (issued in January 2008; effective for annual periods beginning on or after 1 January 2008).

The Group is currently assessing what impact the new interpretations and amendments will have on disclosures in its consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities in future financial reporting periods. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities in future financial reporting periods are as follows:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 33).



4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Useful lives of property, plant and equipment. Items of property, plant and equipment are stated net of accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the environment in which the asset is operated. Differences between such estimate and actual results may result in losses in future periods and changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgements and applies estimations based on the last three year's taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

5 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group focuses on managing risks exposure that may lead to a potential loss of RR 1,250 per year and more. The Group uses derivative financial instruments to hedge its risk exposures (primarily foreign exchange risk).

The risk management is carried out by a central finance function. Group treasury identifies, evaluates and hedges market risks in accordance with the policies approved by the President. Group treasury also manages credit risks in relation to transactions with financial institutions. Credit risks in relation to the operating transactions are managed by business units in accordance with written policies established at Group level. Liquidity risk is managed centrally by Group controlling department together with Group treasury.

Foreign exchange risk. The Group operates internationally, exports production to European and Asian countries and attracts a substantial amount of foreign currency denominated borrowings and is, thus, exposed to foreign exchange risk arising from various Russian Rouble exposures, primarily with respect to the US dollar and to the lesser extent Euro. Foreign currency denominated assets and liabilities (Note 5) give rise to foreign exchange risk exposure. The Group has significant receivables denominated in foreign currencies. Cash inflows denominated in foreign currencies exceeds cash outflows from similarly denominated liabilities, principally borrowings and settlements with suppliers. Therefore, the Group manages its foreign exchange risk arising from future sale transactions adjusted for other transactions (foreign currency denominated borrowings and purchases) primarily using forward contracts, put and call options. Currently the Group has option contracts to sell and buy US dollars for the amount of USD 1,005 million. The Group does not account for these derivative financial instruments as a hedge.

At 31 December 2007, if Russian Rouble had weakened/strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR 972 (2006: RR 370) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and foreign exchange losses/gains on translation of US dollar-denominated borrowings. Profit is more sensitive to movement in currency/US dollar exchange rates in 2007 than 2006 because of the increased amount of US-dollar denominated borrowings.



5 FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2007, if Russian Rouble had weakened/strengthened by 5 percent against the Euro with all other variables held constant, post-tax profit for the year would have been RR 38 (2006: loss RR 1) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables and foreign exchange losses/gains on translation of Euro-denominated borrowings.

The table below summarized the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

As of 31 December 2007	USD	Euro	Other currency
Cash and cash equivalents	76	38	7
Trade and other receivables	3,038	285	-
Advances and prepayments	18	47	6
Other current/non-current assets	90	97	-
	3,222	467	13
Trade and other payables	9	14	-
Advances received	938	24	3
Borrowings	11,738	1,199	-
Other non-current liabilities	165	-	-
	12,850	1,237	3

As of 31 December 2006	USD	Euro	Other currency
Cash and cash equivalents	242	-	-
Trade and other receivables	1,823	87	-
Advances and prepayments	10	174	-
	2,075	261	-
Trade and other payables	91	31	-
Advances received	414	-	20
Borrowings	5,266	205	-
	5,771	236	20

Cash flow and fair value interest rate risk. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2007 and 2006, the Group's borrowings at variable rate were denominated in Russian Roubles, US dollars and EURO (Notes 19, 20).

The Group analyses its interest rate exposure on a regular basis. Financing decisions are made after careful consideration of various scenarios and may include refinancing, renewal of existing positions or alternative financing. The Group currently does not use derivative instruments to hedge its cash flow and fair value interest rate risk.



5 FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2007, if interest rates on Russian Rouble-denominated borrowings had been 20 percent higher/lower with all other variables held constant, post-tax profit for the year would have been RR 44 (2006: RR nil) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. At 31 December 2007, if interest rates on US Dollar denominated borrowings at that date had been 30 percent higher/lower with all other variables held constant, post-tax profit for the year would have been RR 129 (2006: RR 109) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. At 31 December 2007, if interest rates on Euro denominated borrowings at that date had been 50 percent higher/lower with all other variables held constant, post-tax profit for the year would have been RR 75 (2006: RR 6) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk. Credit risk arises from cash and cash equivalents, including short-term deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to have minimal risk of default within set credit limits. With regards to customers, the Group distinguishes Gazprom subsidiaries and other third party customers. The Group believes that there is low credit risk in relation to Gazprom subsidiaries. Therefore, no further credit quality assessment for these customers is done. For other customers the Group assesses credit quality taking into account its financial position, past experience and other factors. Most of the other customers do not have external credit rating. The Group does not require collateral or other security to support receivables from customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The table below shows the credit limit and balance of the major Groups of counterparties at the balance sheet date.

	31 December 2007			31 December 2006	
	Bank equity	Rating	Credit limit for one bank	Balance	Maximum balance in one bank
Gazprombank	Not set	BBB-	Not set	3,209	3,209
Major banks	25,000	B+/B2	3,000	130	145
Secondary banks	5,000	B+/B2	1,500	71	80
Other banks	Not set	Not set	Individually set < 300	532	422
				3,942	3,856
				2,804	2,566

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties. The maximum credit risk exposure for cash and cash equivalents is RR 3,942 and RR 2,804 as of 31 December 2007 and 2006, respectively.

Liquidity risk. Liquidity risk management includes maintaining sufficient cash balances, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group management maintains flexibility in funding by ensuring availability under committed credit lines and expected cash flows from operating activities. Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility (Notes 19, 20) and cash and cash equivalents (Note 8)) on the basis of expected cash flow. This is carried out at Group level monthly and annually. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and maintaining debt financing plans.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date.



5 FINANCIAL RISK MANAGEMENT (CONTINUED)

As of 31 December 2007	Less than one year	Between once and two years	Between two and five years	Over five years
Borrowings	10,534	4,570	3,387	2,414
Trade and other payables	5,812	-	-	-
Short-term promissory notes payable	150	-	-	-
Restructured liabilities	753	238	594	-
Restructured tax liabilities	33	34	74	-
Other non-current assets	-	3	3	170
	17,282	4,845	4,058	2,584
As of 31 December 2006				
Borrowings	707	2,826	3,429	58
Trade and other payables	4,363	-	-	-
Short-term promissory notes payable	223	-	-	-
Restructured liabilities	483	337	730	194
Restructured tax liabilities	213	52	108	-
	5,989	3,215	4,267	252

As the amounts included in the table are the contractual undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and trade and other payables.

Capital risk management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the EBITDA to net debt ratio. This ratio is calculated as EBITDA divided by net debt. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. EBITDA is calculated as profit before income tax less depreciation and other interest expenses as shown in the consolidated income statement.

The Group's strategy is to achieve EBITDA to net debt ratio at 2.5. The EBITDA to net debt ratios were 2.18 and 7.65 as of 31 December 2007 and 2006, respectively.

6 SEGMENT INFORMATION

The Group operates as a vertically integrated business for production and marketing of petrochemical products. The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. Management identifies three reporting segments based on the nature of the products and technological processes:

- Petrochemical - processing of associated petroleum gas to produce broad fractions of light hydrocarbons, liquefied hydrocarbon gases, liquid monomer hydrocarbon fractions, monomers, organic synthesis products and polymers, including synthetic rubber;
- Tires - production of truck tires, car tires, aircraft tires, bicycle and motorcycle tires, large-size tires and tires for agricultural machinery.
- Other - production of fertilizers, plastics, chemical fibers and other finished goods, and rendering transportation services, neither of which are of a sufficient size to be reported separately.



6 SEGMENT INFORMATION (CONTINUED)

The inter-segment transfers represent the following:

- Petrochemical segment – transfer of synthetic rubber and other refined products to entities within the Tires segment; transfer of dry gas and plastic mass to entities within the Other segment for the subsequent production of mineral fertilizers and plastics finished goods, respectively;
- Other - transfer of fibers to the Tires segment and sales of transportation services to the Petrochemical segment.

Segment assets consist primarily of property, plant and equipment and current assets (including inventories and accounts receivable) and exclude investments and income tax balances. Unallocated assets include recoverable VAT, cash and cash equivalents, restricted cash and investments. Segment liabilities comprise operating liabilities, excluding items such as taxes payable, borrowings, liabilities under amicable agreements and deferred tax liabilities. Unallocated costs mainly represent corporate expenses.

Segment information for the reportable business segments of the Group for the years ended 31 December 2007 and 2006 is set out below:

	Petrochemical	Tires	Other	Unallocated	Group
Year ended 31 December 2007					
External revenue	104,219	23,777	14,655	-	142,651
Inter-segment transfers	14,563	-	3,270	-	17,833
Total revenue	118,782	23,777	17,925	-	160,484
External expenses	(86,056)	(8,235)	(15,753)	(3,882)	(113,926)
Inter-segment transfers	(1,893)	(14,950)	(990)	-	(17,833)
Gain on disposal of investments	-	-	-	171	171
Total expenses	(87,949)	(23,185)	(16,743)	(3,711)	(131,588)
Operating profit/segment result	30,833	592	1,182	(3,711)	28,896
Finance income	-	-	-	2,320	2,320
Finance costs	-	-	-	(1,194)	(1,194)
Share of profit (loss) of associates	596	-	8	-	604
Profit (loss) before income tax	31,429	592	1,190	(2,585)	30,626
Income tax expense	-	-	-	(8,045)	(8,045)
Profit (loss) for the period	31,429	592	1,190	(10,630)	22,581
Segment assets	65,848	12,433	31,882	11,632	121,795
Investments in associates	3,992	353	-	-	4,345
Inter-segment eliminations	-	-	-	-	(1,671)
Total assets					124,469
Segment liabilities	(6,919)	(1,122)	(5,389)	(26,042)	(39,472)
Inter-segment eliminations	-	-	-	-	1,671
Total liabilities					(37,801)
Capital expenditure	6,534	2,543	10,732	138	19,947
Depreciation	2,332	404	1,472	110	4,318
Non-cash expenses (income) other than depreciation	373	(89)	(196)	292	380



6 SEGMENT INFORMATION (CONTINUED)

	Petrochemical	Tires	Other	Unallocated	Group
Year ended 31 December 2006					
External revenue	92,753	18,989	10,191	-	121,933
Inter-segment transfers	13,482	-	3,100	-	16,582
Total revenue	106,235	18,989	13,291	-	138,515
External expenses	(75,275)	(5,679)	(11,368)	(1,883)	(94,205)
Inter-segment transfers	(2,380)	(13,120)	(1,082)	-	(16,582)
Gain on disposal of investments	-	-	-	451	451
Total expenses	(77,655)	(18,799)	(12,450)	(1,432)	(110,336)
Operating profit/segment result	28,580	190	841	(1,432)	28,179
Finance income	-	-	-	686	686
Finance costs	-	-	-	(1,020)	(1,020)
Share of profit (loss) of associates	603	17	19	-	639
Profit (loss) before income tax	29,183	207	860	(1,766)	28,484
Income tax expense	-	-	-	(6,961)	(6,961)
Profit (loss) for the period	29,183	207	860	(8,727)	21,523
Segment assets	53,369	9,513	17,610	13,426	93,918
Investments in associates	1,152	315	146	-	1,613
Inter-segment eliminations	-	-	-	-	(1,876)
Total assets					93,655
Segment liabilities	(4,485)	(1,128)	(4,589)	(12,782)	(22,984)
Inter-segment eliminations	-	-	-	-	1,876
Total liabilities					(21,108)
Capital expenditure	5,449	814	1,599	148	8,010
Depreciation	2,137	270	1,031	146	3,584
Non-cash expenses (income) other than depreciation	(344)	123	(107)	626	298



6 SEGMENT INFORMATION (CONTINUED)

Geographical segments. All of the Group's operating assets are located in the Russian Federation. Information about refinery products and transportation services sales to geographical segments is set out below.

	Russia	CIS	Europe	China	Other	Group
Year 2007						
Segment assets	121,249	111	435	-	-	121,795
External revenue	89,563	13,601	21,603	6,664	11,220	142,651
Capital expenditure	19,947	-	-	-	-	19,947
Year 2006						
Segment assets	93,579	28	311	-	-	93,918
External revenue	77,675	13,565	19,118	5,330	6,245	121,933
Capital expenditure	8,010	-	-	-	-	8,010

External revenue is based on where the customer is located. Segment assets and capital expenditure are based on where the assets are located. Export sales are mainly denominated in US dollars.

7 FINANCIAL INSTRUMENTS BY CATEGORY

As of 31 December 2007	Loans and receivables	Assets at fair value through the profit and loss	Available for sale	Total
Assets as per balance sheet				
Cash and cash equivalents	3,942	-	-	3,942
Trade and other receivables	13,932	-	-	13,932
Other current assets	125	90	623	838
	17,999	90	623	18,712

As of 31 December 2007	Liabilities at amortised cost
Liabilities as per balance sheet	
Trade and other payables	5,812
Short-term promissory notes payable	150
Borrowings	20,228
Restructured liabilities	1,397
Restructured tax liabilities	115
Other non-current liabilities	176
	27,878

As of 31 December 2006	Loans and receivables	Available for sale	Total
Assets as per balance sheet			
Cash and cash equivalents	2,804	-	2,804
Trade and other receivables	7,751	-	7,751
Other current assets	6,703	431	7,134
	17,258	431	17,689



7 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

As of 31 December 2006	Liabilities at amortised cost
Liabilities as per balance sheet	
Trade and other payables	4,363
Short-term promissory notes payable	223
Borrowings	7,018
Restructured liabilities	1,501
Restructured tax liabilities	318
	13,423

8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include RR denominated deposits held with banks, which are readily convertible to cash and have an original maturity of less than three months of RR 3,009 and RR 1,745 as of 31 December 2007 and 2006, respectively.

9 EARNINGS PER SHARE

Basic earnings per share has been calculated by dividing the net profit for the year attributable to equity holders by the weighted average number of shares outstanding during the year. There were 39,050,841 and 40,100,034 weighted average shares outstanding for the years ended 31 December 2007 and 2006, respectively. The Group has no dilutive potential ordinary shares.

10 TRADE AND OTHER RECEIVABLES

	31 December 2007	31 December 2006
Trade receivables (net of impairment provision of RR 587 and RR 492 as of 31 December 2007 and 2006, respectively)	4,827	2,182
Receivables from Gazprom	3,836	2,874
Other receivables (net of impairment provision of RR 985 and RR 1,254 as of 31 December 2007 and 2006, respectively)	3,697	949
	12,360	6,005
Less non-current portion: Other receivables	(307)	(146)
	12,053	5,859

The fair values of trade and other receivables as of 31 December 2007 and 2006 approximate their book values.

Trade and other receivables that are less than 12 months past due are not considered impaired. As of 31 December 2007 and 2006 trade receivables of RR 1,065 and RR 551, respectively, were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.



10 TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing analysis of trade receivables that are past due but not impaired is as follows:

	Trade receivables	Receivables from Gazprom	Other receivables	Total
As of 31 December 2007				
Up to 3 months	458	9	24	491
3 to 6 months	481	-	11	492
6 to 12 months	71	-	11	82
	1,010	9	46	1,065
As of 31 December 2006				
Up to 3 months	485	-	16	501
3 to 6 months	23	-	8	31
6 to 12 months	14	-	5	19
	522	-	29	551

Movements on the Group provision for impairment of trade receivables are as follows:

	Trade receivables	Receivables from Gazprom	Other receivables	Total
At 31 December 2005	711	-	3,171	3,882
Provision for receivables impairment	74	-	326	400
Reclassification	(111)	-	92	(19)
Receivables written off during the year as uncollectible	(49)	-	(2,064)	(2,113)
Unused amounts reversed	(133)	-	(271)	(404)
At 31 December 2006	492	-	1,254	1,746
Provision for receivables impairment	58	-	70	128
FV of OAO Mineral Fertilizers at acquisition	-	-	3	3
Reclassification	125	-	(125)	-
Receivables written off during the year as uncollectible	(23)	-	(19)	(42)
Unused amounts reversed	(65)	-	(198)	(263)
At 31 December 2007	587	-	985	1,572

The creation and release of provision for impaired receivables have been included in "other costs" in the income statement (Note 25). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is RR 13,932 and RR 7,751 as of 31 December 2007 and 2006, respectively. The Group does not hold any collateral as security.



11 PREPAID TAXES AND RECOVERABLE VAT

	31 December 2007	31 December 2006
Recoverable VAT	8,541	7,938
VAT receivable	1,172	1,671
Prepaid current income tax	1,059	1,142
Recoverable excise	281	-
Other prepaid taxes	526	82
	11,579	10,833
Less non-current portion:		
Recoverable VAT related to assets under construction	(55)	(226)
VAT related to long-term portion of restructured liabilities	-	(791)
	11,524	9,816

12 INVENTORIES

	31 December 2007	31 December 2006
Refined products	12,856	10,176
Materials and supplies (net of impairment provision of RR 379 and RR 306 as of 31 December 2007 and 2006, respectively)	3,284	2,246
Goods for resale (net of impairment provision of RR 80 and RR 71 as of 31 December 2007 and 2006, respectively)	61	868
Other finished goods	152	136
	16,353	13,426

Inventory pledged as security for loans and borrowings received was RR nil and RR 1,427 (related liability RR nil and RR 1,245) as of 31 December 2007 and 2006, respectively.

13 OTHER CURRENT ASSETS

Other current assets include deposits held with banks, which are readily convertible to cash and have an original maturity of more than three but less than twelve months of RR 28 and RR 6,703 as of 31 December 2007 and 2006, respectively.

Other current assets also include outstanding option contracts to sell and buy foreign currencies (USD) at the date of maturity of RR 90 and nil as of 31 December 2007 and 2006, respectively. The maturities of all option contracts are less than one year. Option contracts are measured at fair value, with gains reported within the consolidated statement of income.



14 PROPERTY, PLANT AND EQUIPMENT

Movements in the net book value of property, plant and equipment were as follows:

	Buildings	Facilities	Machinery and equipment	Transport	Assets under construction	Other	Total
Net book value at 31 December 2005	13,142	10,489	10,532	1,818	7,779	538	44,298
Depreciation charge	(269)	(660)	(2,300)	(254)	-	(101)	(3,584)
Additions	23	96	1,559	258	6,074	-	8,010
Transfers	967	1,969	2,675	520	(6,227)	96	-
Disposals	(228)	(132)	(137)	(15)	(359)	(20)	(891)
Reversal of write-offs through profit or loss	-	-	-	-	138	-	138
Write-off	(261)	(3)	(58)	-	-	(11)	(333)
Historic cost at 31 December 2006	17,659	20,798	32,807	4,125	7,405	1,196	83,990
Accumulated depreciation	(4,285)	(9,039)	(20,536)	(1,798)	-	(694)	(36,352)
Net book value at 31 December 2006	13,374	11,759	12,271	2,327	7,405	502	47,638
Depreciation charge	(291)	(839)	(2,680)	(404)	-	(104)	(4,318)
Additions	33	8	1,163	2,577	9,956	-	13,737
Acquisition	2,038	737	1,922	877	60	576	6,210
Transfers	858	758	5,010	441	(7,274)	207	-
Disposals	(137)	(31)	(13)	(23)	(185)	(27)	(416)
Reversal of write-offs through profit or loss	-	-	-	-	39	-	39
Historic cost at 31 December 2007	21,098	23,884	45,650	8,695	10,001	2,586	111,914
Accumulated depreciation	(5,223)	(11,492)	(27,977)	(2,900)	-	(1,432)	(49,024)
Net book value at 31 December 2007	15,875	12,392	17,673	5,795	10,001	1,154	62,890

Included within machinery and equipment are assets held under finance leases with a carrying value of RR 901 and RR 994 as of 31 December 2007 and 2006, respectively.

Included within additions are non-cash additions of RR 500 and RR 514 for the years ended 31 December 2007 and 2006, respectively.

Net book value of fixed assets pledged as security for loans and borrowings received was RR 191 and RR nil (related liability RR 176 and RR nil) as of 31 December 2007 and 2006, respectively.

Property, plant and equipment are presented net of write-off of RR 2,468 and RR 2,449 as of 31 December 2007 and 2006, respectively. Assets under construction are presented net of write-off of RR 1,018 and RR 1,057 as of 31 December 2007 and 2006, respectively.



15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2007	31 December 2006
Sibmetakhim	1,962	1,152
Rusvinil	1,400	-
National Polymers	605	-
SP Matador-Omskshina	353	315
Yuzhno-Priobskiy GPZ	25	-
NIPI Gazpererabotka	-	146
	4,345	1,613

Sibmetakhim. In August 2006, the Group contributed its 33.5 percent interest in Metafraks, a methanol producing company, and the methanol producing property, plant and equipment of its consolidated subsidiary Tomskneftekhim to the charter capital of a newly formed entity Sibmetakhim. As of 31 December 2006 the Group had a 66.7 percent interest in Sibmetakhim and Gazprom had a 33.3 percent interest. Gazprom financed its interest by contributing a 29 percent interest in Tomskneftekhim. As of 31 December 2006, the Group had an effective 90.3 percent interest in Tomskneftekhim.

In February 2007, the Group decreased its interest in Sibmetakhim to 50.0 percent in exchange for the remaining 9.7 percent interest in Tomskneftekhim. The difference of RR 272 between fair value of the 9.7 percent interest in Tomskneftekhim of RR 604 and book value of minority interest acquired in Tomskneftekhim of RR 876 was recorded within shareholders' equity in these consolidated financial statements. The Group recorded a gain in its consolidated income statement for the year ended 31 December 2007 of RR 421 (RR 179 and RR 242 relating to disposals of the interest in Metafraks and the property, plant and equipment, respectively) representing Gazprom's share of the difference between fair value and the carrying value of the assets contributed by the Group.

Rusvinil. In June 2007 the Group formed a joint venture with SolVin Holding Nederland B.V. (75%-owned by the Solvay SA and 25%-owned by the BASF AG) for construction of polyvinyl chloride production complex in Nizhegorodsky region and contributed RR 1,400 to this joint venture.

National Polymers. In 2005 the Group entered into a joint venture arrangement with OAO Lukoil-Neftekhim to establish OOO National Polymers, with each party having a 50 per cent interest and joint control. The purpose of National Polymers to acquire OAO Polief (terephthalic acid and mylar producer, located in Bashkortostan). In the year ended 31 December 2007 each joint venture party provided loans to National Polymers of RR 1,040, both being repayable on 31 December 2009 and bearing interest at 6.45 per cent per annum. The loan was used by National Polymers to acquire a controlling interest in Polief in April 2007. In December 2007 the Group contributed RR 500 to share capital of National Polymers and National Polymers repaid RR 500 of the loan. Management believes that this loan effectively represents an investment in joint venture and therefore it is recorded within investments in associates and joint ventures in these IFRS consolidated financial statements. National Polymers consolidates Polief as a subsidiary undetaking.

NIPI Gazpererabotka. As of 31 December 2006 the Group had 38 percent of the share capital of NIPI Gazpererabotka. In June 2007 the Group has acquired additional 17 percent interest in NIPI Gazpererabotka for RR 127 and effective consolidated its interests in NIPI Gazpererabotka in these IFRS consolidated financial statements. The fair values of NIPI Gazpererabotka's assets and liabilities at the date of acquisition have been determined on a provisional basis.



15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The table below summarises the movements in the carrying amount of the Group's investment in associates.

	Country of incorporation	Nature of operations	Interest held as of	
			31 December 2007	31 December 2006
Sibmetakhim	Russia	Methanol production	50%	66.7%
Rusvinil	Russia	Polyvinyl chloride production	50%	-
National Polymers	Russia	Investments in Polief	50%	-
SP Matador-Omskshina	Russia	Tires production	50%	50%
Yuzhno-Priobskiy GPZ	Russia	Associated petroleum gas processing	50%	-
NIPI Gazpererabotka	Russia	Research activity	-	38.0%

	31 December 2007	31 December 2006
Balance at the beginning of the reporting period	1,613	916
Share of net profit (loss)	604	639
Additions	2,049	805
Loan issued	1,040	-
Loan repaid	(500)	-
Dividends received from associates	(3)	(12)
Consolidated	(274)	-
Disposals	(184)	(735)
Balance at the end of the reporting period	4,345	1,613

The Group's share of the results of its principal associates, all of which are unlisted, and its aggregated assets and liabilities, are as follows:

As of and for the year ended 31 December 2007

	Assets	Liabilities	Revenues	Profit/Loss
Sibmetakhim	4,008	294	4,571	1,986
Rusvinil	2,801	1	-	2
National Polymers	17,003	18,675	3,231	(872)
SP Matador-Omskshina	1,312	606	2,188	77
Yuzhno-Priobskiy GPZ	51	-	-	-

As of and for the year ended 31 December 2006

	Assets	Liabilities	Revenues	Profit/Loss
Sibmetakhim	2,182	454	1,139	632
SP Matador-Omskshina	1,160	530	1,921	34
NIPI Gazpererabotka	396	140	592	49

16 OTHER NON-CURRENT ASSETS

Other non-current assets include precious metal catalysts which are expected to be used for production purposes after more than twelve months of RR 693 and RR 348 as of 31 December 2007 and 2006, respectively.



17 TRADE AND OTHER PAYABLES

	31 December 2007	31 December 2006
Accounts payable for acquisition of property, plant and equipment	2,192	1,692
Trade payables	1,786	1,300
Interest payable	212	130
Other payables	1,686	1,241
	5,876	4,363

18 TAXES PAYABLE

	31 December 2007	31 December 2006
VAT	1,639	1,165
Income tax	344	354
Unified social tax	228	190
Property tax	192	161
Tax penalties and interest	146	165
Individual income tax	137	97
Other taxes	302	400
	2,988	2,532
Less: long term portion of restructured tax liabilities	(80)	(119)
	2,908	2,413

19 SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December 2007	31 December 2006
Short-term borrowings:		
RR denominated borrowings	3,540	49
USD denominated borrowings	4,173	-
	7,713	49
Current portion of long-term borrowings	2,797	658
	10,510	707

Short-term RR denominated borrowings bear average interest rates of 7.2 percent and 7.4 percent for the years ended 31 December 2007 and 2006, respectively. Short-term foreign currency denominated borrowings bore average interest rates of 6.3 percent and nil percent for the years ended 31 December 2007 and 2006, respectively.

The Group's short-term promissory notes payable bore no interest for the years ended 31 December 2007 and 2006, respectively.

The carrying amounts of short-term borrowings approximate their fair value.



19 SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS (CONTINUED)

As of 31 December 2007 and 2006 the Group had the following committed short-term credit facilities:

	Credit limit	Amount outstanding
As of 31 December 2007		
RR denominated (RR million)	7,640	3,184
USD denominated (USD million)	180	170
As of 31 December 2006		
RR denominated (RR million)	40	40
USD denominated (USD million)	-	-

20 LONG -TERM BORROWINGS

Long-term borrowings payable to	Currency	Due	31 December 2007	31 December 2006
<i>Variable rate loans</i>				
ABN Amro Bank N.V./ Citibank N.A.	US dollar	2009	4,296	5,266
TNK-BP	US dollar	2017	2,165	-
Russian rouble denominated bonds	RR	2009	1,498	1,498
ZAO UniCredit Bank	US dollar	2009	1,105	-
ING Bank Deutschland AG	Euro	2006-2014	868	205
ING Bank Deutschland AG	Euro	2010	231	-
OA AK Sberbank RF	Euro	2008	100	-
OA AK Sberbank RF	RR	2008	73	-
ZAO ING Bank Eurasia	RR	2010	55	-
<i>Fixed rate loans</i>				
OOO Mezhhregiongaz	RR	2011	1,949	-
TNK-BP	RR	2012	175	-
Total long-term borrowings			12,515	6,969
Less: current portion of long-term borrowings			(2,797)	(658)
			9,718	6,311

TNK-BP. In December 2006, the Group signed an agreement with TNK-BP to form an entity Yugragazpererabotka in the Tyumen region to process associated petroleum gas. In March 2007 the Group contributed to this newly formed entity its wholly owned consolidated subsidiaries Nizhnevartovskiy GPK, Belozerniy GPK and Truboprovodnaya Company. TNK-BP contributed cash of USD 88.2 million. The Group retains full control over contributed gas processing and transportation assets through call options included in the agreement. In accordance with the call options the Group will pay between 10-20 percent of interest on the amounts contributed by TNK-BP.

Accordingly, Yugragazpererabotka was consolidated as a wholly owned subsidiary of the Group and TNK-BP's contribution is accounted for as a long-term loan in these consolidated financial statements.

In year 2007, the Group obtained long-term loan from TNK-BP for financing of capital investments in gas processing assets of Nizhnevartovskiy GPK and Belozerniy GPK. Loan bears interest eight percent annually and repayable in 2012.



20 LONG-TERM BORROWINGS (CONTINUED)

OOO Mezhhregiongaz. During year 2007, Severnye Gazoprovogy, Lahtinskie Gazoprovogy and Yugo-Zapadnye Gazoprovogy, subsidiaries of the Group, were named as executors of a St. Petersburg government program in relation to construction of gas infrastructure assets in St. Petersburg area. Severnye Gazoprovogy, Lahtinskie Gazoprovogy and Yugo-Zapadnye Gazoprovogy will be granted governmental funds in the amount of RR 5,393 million during 2007-2008 provided that Severnye Gazoprovogy, Lahtinskie Gazoprovogy and Yugo-Zapadnye Gazoprovogy comply with grant conditions. Among these conditions is the requirement to finance the construction from own funds in the amount of RR 5,393 million. As of 31 December 2007 RR 177 of grant received were recognized by the Group as deferred income and recorded within other non-current liabilities in these consolidated financial statements.

To fulfil this program the Group entered into a number of agreements with OOO Mezhhregiongaz, a subsidiary of its controlling shareholder Gazprom. Under the agreements OOO Mezhhregiongaz provides loans in 2007-2008 to OAO Sibur Holding in the total nominal amount of RR 5,393 million and will act as a contractor in the assets construction. The Group and OOO Mezhhregiongaz through its subsidiary agreed to sell/buy interest in Severnye Gazoprovody, Lahtinskie Gazoprovogy and Yugo-Zapadnye Gazoprovogy at the date of completion of the assets construction (in 2010-2011).

As of 31 December 2007 the Group recognized loan provided by OOO Mezhhregiongaz at fair value of RR 1,949 with discount of RR 651 recognized within the consolidated income statement (Note 27).

Scheduled maturities of long-term borrowings as of 31 December 2007 and 2006 are presented below:

	31 December 2007	31 December 2006
Due for repayment:		
Between one and two years	4,568	2,826
Between two and five years	2,736	3,427
After five years	2,414	58
	9,718	6,311

Long-term borrowings include fixed rate loans with a carrying value of RR 2,775 and RR nil and fair value of RR 2,124 and RR nil as of 31 December 2007 and 2006, respectively. All other long-term borrowings generally have variable interest rates linked to LIBOR or EURIBOR, and the carrying amounts approximate fair value.

The Group does not apply hedge accounting and has not entered into any formal hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

The weighted average effective interest rates at the balance sheet dates were as follows:

	31 December 2007	31 December 2006
Fixed rate RR denominated long-term borrowings	1%	-
Variable rate RR denominated long-term borrowings	8%	7%
Variable rate USD denominated long-term borrowings	8%	7%
Variable rate Euro denominated long-term borrowings	6%	5%

The Group had no subordinated debt and no debt that may be converted into an equity interest in the Group.



20 LONG -TERM BORROWINGS (CONTINUED)

As of 31 December 2007 and 2006 the Group had the following committed long-term credit facilities:

	Credit limit	Amount outstanding
As of 31 December 2007		
RR denominated (RR million)	976	128
Euro denominated (Euro million)	72	24
USD denominated (USD million)	50	45
As of 31 December 2006		
Euro denominated (Euro million)	10	-
USD denominated (USD million)	50	-

21 RESTRUCTURED LIABILITIES

	31 December 2007	31 December 2006
External creditors	1,397	1,501
Less: current portion of restructured liabilities	(598)	(447)
	799	1,054

The maturity of restructured liabilities is presented below:

	31 December 2007	31 December 2006
Between one and two years	161	286
Between two and five years	507	607
After five years	131	161
	799	1,054

22 INCOME TAX

	Year ended 31 December 2007	2006
Profit before income tax and minority interest	30,626	28,484
Theoretical tax (charge) benefit at the statutory rate (24 percent for years ended 31 December 2007 and 2006)	(7,350)	(6,836)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable gain	507	262
Non-deductible expenses	(1,202)	(387)
Income tax expense	(8,045)	(6,961)

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24 percent.



22 INCOME TAX (CONTINUED)

	31 December 2007	Differences recognition and reversals	31 December 2006	Differences recognition and reversals	31 December 2005
Tax effects of taxable temporary differences					
Property, plant and equipment	(4,496)	(545)	(3,951)	148	(4,099)
Inventory	203	316	(113)	(13)	(100)
Financial instruments	(22)	(22)	-	-	-
Investments in associates and joint ventures	(466)	(153)	(313)	(168)	(145)
	(4,781)	(404)	(4,377)	(33)	(4,344)
Tax effects of deductible temporary differences					
Tax losses carry forward	124	5	119	(10)	129
Accounts and other receivables	1,007	(118)	1,125	24	1,101
Other	120	(6)	126	103	23
	1,251	(119)	1,370	117	1,253
Total net deferred tax liabilities	(3,530)	(523)	(3,007)	84	(3,091)

Included in taxable temporary differences recognized in respect of property, plant and equipment is a taxable temporary difference resulting from the fair value adjustment following the acquisition of interest in OAO Mineralnye Udobrenia (Note 29) in September 2007 with tax effect of RR 836.

Deferred tax liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment.

In accordance with tax legislation of the Russian Federation tax losses and current tax assets of the different companies in the Group may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group can not be offset against a deferred tax liability of another company.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RR 2,019 (2006: RR 2,089) in respect of losses amounting to RR 8,412 (2006: RR 8,634) than can be carried forward against future taxable income.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 780 and RR 1,433 as of 31 December 2007 and 2006, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

23 SHAREHOLDERS' EQUITY

Share capital. Share capital of Sibur Holding authorised, issued and paid in totals RR 40,100 and consists of 40,100,034 ordinary shares, each with a par value of 1,000 roubles as of 31 December 2007 and 2006.

Dividends. On 19 June 2007, the shareholders of the Group approved distribution of a final dividend for the year ended 31 December 2006 in the amount of RR 3,931 (RR 98.04 per share). The distribution has been accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 December 2007.



23 SHAREHOLDERS' EQUITY (CONTINUED)

Distributable retained earnings. In accordance with Russian legislation, Sibur Holding distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. Russian legislation identifies the net profit as the basis of distribution. The current year net statutory profit for Sibur Holding as reported in the published annual statutory reporting forms was RR 18,239 and RR 19,237 for the years ended 31 December 2007 and 2006, respectively, and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 33,273 and RR 19,928 as of 31 December 2007 and 2006, respectively.

24 SALES

	Year ended 31 December	
	2007	2006
Sales of refined products and tires (including excise tax and custom duties, net of VAT):		
Rubbers	21,567	21,705
Products of organic synthesis	19,036	15,111
Other polymers	15,589	14,778
Liquefied hydrocarbon gas	14,177	10,595
Dry gas	8,837	8,806
Lubricants	9,782	7,894
Monomers	7,580	7,891
Hydrocarbon materials	4,647	2,986
Other refined products	5,586	4,553
Total petrochemical products	106,801	94,319
Truck tires	13,385	10,588
Car tires	6,279	4,928
Other tires (aircraft, agricultural, etc.)	4,113	3,473
Total tires	23,777	18,989
Mineral fertilizers	7,531	3,643
Synthetic fibers	305	365
Rubber technical goods	2,008	1,934
Other	4,811	4,249
Total other	14,655	10,191
Custom duties	(2,582)	(1,566)
Total net sales	142,651	121,933



25 OPERATING EXPENSES

	Year ended 31 December	
	2007	2006
Materials	50,362	39,982
Staff costs	23,725	18,934
Electricity	13,208	12,629
Depreciation	4,318	3,584
Rent expenses	2,273	2,611
Repairs and maintenance	2,257	1,994
Auto and railway transportation costs	2,078	767
Gas for own needs	2,014	1,236
Processing services of third parties	1,900	2,572
Services provided by third parties	1,794	991
Taxes other than on income (Note 26)	1,437	713
Purchased refining products	1,601	2,130
Security expenses	1,383	981
Transit and storage costs	1,317	1,025
Losses (gain) on disposal of property, plant and equipment (Note 15)	(152)	(515)
Other	4,411	4,571
	113,926	94,205

Included in staff costs are statutory social security and state pension contributions of RR 3,682 and RR 3,347 for the years ended 31 December 2007 and 2006, respectively.

26 TAXES OTHER THAN ON INCOME

	Year ended 31 December	
	2007	2006
Property tax	745	591
Land tax	268	281
Penalties on tax liabilities (refunds)	(146)	(318)
Other tax liabilities	570	159
	1,437	713

All taxes other than on income are calculated based on amounts recorded in accordance with Russian statutory accounting regulations at statutory rates.



27 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2007	2006
Gain on financial instruments	766	-
Exchange gain	393	237
Discount on loans and borrowings (Note 20)	735	-
Interest income	409	66
Gain on purchase of Group liabilities	17	383
Finance income	2,320	686
Interest expenses	(1,039)	(847)
Amortization of discount	(61)	-
Loss on restructured liabilities	(94)	(173)
Finance expenses	(1,194)	(1,020)

28 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December	
	2007	2006
Profit before tax and minority interest	30,626	28,484
Adjustments to profit before income tax and minority interest		
Depreciation	4,318	3,584
Share of results of associates	(604)	(639)
Losses on disposal of property, plant and equipment	(152)	(515)
Losses on disposal of investments	(171)	(451)
Write-off of property, plant and equipment	(90)	195
Impairment of trade and other receivables	(35)	100
Write down of other non-current assets	(48)	(157)
Other provisions	(58)	78
Restructured taxes and other liabilities	(48)	173
Discounting of loans and borrowings	(674)	-
Interest expense	1,039	847
Interest income	(409)	(66)
Gain on purchase of Group liabilities from external with discount (Note 27)	(17)	(383)
Net unrealized foreign exchange losses (gains)	(393)	(237)
Other	193	-
Operating cash flows before working capital changes	33,477	31,013
Changes in working capital		
Decrease (increase) in accounts receivable and prepayments	(6,954)	111
Decrease (increase) in inventories	(2,804)	(2,495)
Decrease (increase) in other current assets	6,500	(6,656)
Increase (decrease) in accounts payable and accrued charges	160	(1,066)
Increase (decrease) in taxes payable	1,525	(2,103)
Cash generated from operations	31,904	18,804
Income tax paid	(8,972)	(7,311)
Net cash from operating activities	22,932	11,493



28 NET CASH PROVIDED BY OPERATING ACTIVITIES (CONTINUED)

Total taxes paid:

	Year ended 31 December	
	2007	2006
Income tax	8,972	7,311
VAT	4,623	4,169
Unified social tax	3,486	3,104
Custom duties	2,579	1,605
Personal income tax	2,372	1,980
Property tax	725	581
Excise tax	482	897
Land tax	276	218
Other taxes	759	462
Total taxes paid	24,274	20,327

29 BUSINESS COMBINATIONS

On 4 September 2007 the Group acquired three percent in share capital of OAO Mineralnye Udobrenia for RR 294. In September 2007 the Group also effectively acquired potential voting rights for another 48 percent interest in this company as defined by IAS 27 "Consolidated and separate financial statements" for RR 4,495. Accordingly, the Group has consolidated its investments in OAO Mineralnye Udobrenia in these consolidated financial statements.

The acquired business contributed revenues of RR 1,767 and net profit of RR 500 to the Group for the period from 4 September 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group revenue would have been RR 4,237, and profit before allocations would have been RR 1,042. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2007, together with the consequential tax effects.

The assets and liabilities arising from the acquisition are as follows:

	Provisional fair value
Cash and cash equivalents	197
Accounts receivable and prepayments	129
Prepaid taxes and recoverable VAT	161
Inventory and other current assets	141
Property, plant and equipment	5,586
Other non-current assets	162
Trade and other payable	482
Borrowings	424
Deferred tax liabilities	881
Other liabilities	55
Net assets	4,534
Minority interests (49%)	(2,217)
Net assets acquired	2,317
Goodwill arising from the acquisition	2,472
Total purchase consideration	4,789

The acquired entity did not prepare financial statements in accordance with IFRS. Therefore, carrying amounts of assets and liabilities acquired are not disclosed.



29 BUSINESS COMBINATIONS (CONTINUED)

The fair value exercise, for the purposes of the business combinations accounting, is expected to be completed within 12 months after the transaction date. Upon finalization of the fair value exercise there may be a consequential adjustment to the carrying value of assets acquired and liabilities assumed.

In year ended 31 December 2007, the Group also made a number of individually immaterial acquisitions for total cash consideration of RR 330.

30 SUBSIDIARIES

Principal wholly-owned operating subsidiaries of the Group

Belozerniy GPK	Sibur-Tyumen	Sibur-Khimprom
Gubkinskiy GPK	SiburTyumenGaz	Sibur-Volzhskiy
Nizhnevartovskiy GPK	Sibur-Geotekstil	Tomsk Petrochemical Plant
Yuzhno-Balykskiy GPK	Tollyattikauchuk	Spetstsystemy
Nyagangazpererabotka	Tobolsk-Neftekhim	Uralsk Tire Plant
Sibur-Neftekhim	Kauchuk	Neftekhim-Leasing
Sibur-PETF	Sibur-Gasservice	Sibur-Mineralnye Udobreniya
Novokuybishevsk Petrochemical Company	Sibur-Russian Tires	Khimprom

Principal other operating subsidiaries of the Group

	Percent of share capital held by the Group as of	
	31 December 2007	31 December 2006
AK Sibur	100	49
AZOT, Kemerovo	75	75
Voronezhskintezkauchuk	75	75
Voltair-Prom	95	82
Volzhskiy Airnitrogen Plant	95	91
Krasnoyarskiy ZSK	100	97
Plastic	67	67
Tomskneftekhim (Note 15)	100	71
Uralorgsintez	95	95
Orton	72	72
Saransky zavod RTI	92	92
Omskshina	83	83
Yaroslavsky Tire Plant	88	88

In the year ended 31 December 2007, the Group made a number of acquisitions of common shares of its consolidated subsidiaries for total cash consideration of RR 13. The difference between fair value of consideration paid and carrying value of minority interest of RR 21 has been recorded within shareholders' equity.

31 MINORITY INTEREST

	Year ended 31 December	
	2007	2006
Minority interest at the beginning of the reporting period	2,161	2,133
Minority interest share of net income of subsidiaries	316	165
Effect of acquisition of shares in consolidated subsidiaries and of other acquisitions (Notes 29, 30)	1,566	(137)
Minority interest at the end of the reporting period	4,043	2,161



32 RELATED PARTIES

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 and 2006 are detailed below.

a) Significant transactions with Gazprom

Gazprom companies are principal creditors and suppliers of raw materials and services.

Operational activities

<i>Operating activities</i>	Year ended 31 December	
	2007	2006
Purchases of materials and supplies	9,622	9,333
Purchases of gas transportation and other transportation services	1,576	2,307
Purchases of other goods and services	316	313
Total purchases from related parties	11,514	11,953
Dry gas sales	2,170	2,009
Petrochemical products sales	957	1,121
Sales of other goods and services	181	358
Total revenues from related parties	3,308	3,488

Acquisition of own shares. During the year ended 31 December 2007, the Group acquired five percent of its own shares from Gazprombank, the direct majority shareholder, for RR 3,372 which is below its fair value. In accordance with a decision of Gazprombank, the difference between fair value of these shares and consideration paid of RR 1,112 was used to finance the bonus payment to the Group's management for 2003-2006 financial years.

Financial income. Financial income includes gain on the fair value of a loan provided by OOO Mezhhregiongaz of RR 651 (Note 27).

As of 31 December 2007 and 2006 the Group had the following balances with Gazprom companies:

	31 December 2007	31 December 2006
Cash and cash equivalents	3,209	979
Other current assets	-	3,800
Accounts receivable and prepayments	3,836	2,874
Accounts payable and accrued charges	1,373	839
Short-term borrowings and current portion of long-term borrowings	1,972	45
Current portion of restructured liabilities	15	-
Long-term borrowings (Note 20)	1,949	-
Restructured liabilities	27	-



32 RELATED PARTIES (CONTINUED)

As of 31 December 2007 the Group had of outstanding committed short-term credit facilities with Gazprom in the amount of RR 2,550 and USD 80 million (as of 31 December 2006: RR 40).

b) Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Government control. Prices of natural gas sales, railway tariffs and electricity tariffs in Russia are regulated by the Federal Tariffs Service ("FTS"). Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

In the years ended 31 December 2007 and 2006 the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	Assets as of		Liabilities as of	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Cash and cash equivalents	141	23	-	-
Accounts receivable				
Transportation services	677	332	-	-
Energy	326	194	-	-
Other	409	337	-	-
	1,412	863	-	-
Other current assets	20	-	-	-
Accounts payable				
Energy	-	-	55	141
Transportation services	-	-	1	8
Other	-	-	46	13
	-	-	102	162
Short-term borrowings and current portion of long-term borrowings	-	-	173	-
Taxes				
Net VAT	9,713	9,609	1,639	1,460
Profit tax	1,059	1,142	344	354
Recoverable excise	281	-	-	-
State pension fund and other social taxes	37	26	228	190
Tax penalties and interest	26	4	146	165
Other taxes	463	52	631	658
	11,579	10,833	2,988	2,827
Less: long term portion of restructured tax liabilities	-	-	(80)	(119)
	11,579	10,833	2,908	2,708



32 RELATED PARTIES (CONTINUED)

	Year ended 31 December	
	2007	2006
Income		
Gas sales	923	100
Waste-water treatment services sales	27	58
Other sales	283	719
	1,233	877
Expense		
Energy purchases	9,406	10,695
Transportation services purchases	9,693	8,046
Gas purchases	1,511	725
Other purchases	257	179
	20,867	19,645
Interest expense	34	170

c) Guarantees

As of 31 December 2007 no interest in the Group's subsidiaries were pledged as guarantees of the liabilities under the amicable agreements or short-term and long-term loans received issued by Gazprom and external banks.

d) Remuneration of directors and key management

The Board of Directors of the Group consists of eight members, primarily shareholder representatives. Members of the Board of Directors are entitled to annual compensation, which is approved by the General Shareholders' Meeting. Compensation amounted to RR 112 and RR 37 for year ended 31 December 2007 and 2006, respectively.

Key management is entitled to salaries, bonuses, voluntary medical insurance and other short term employee benefits, which in total amounted to RR 338 and RR 155 for year ended 31 December 2007 and 2006 respectively. The key management compensation is determined by the terms of annual employment contracts.

e) Associated undertakings

	31 December 2007	31 December 2006
Other current assets	319	-
Accounts receivable and prepayments	75	89
Accounts payable and accrued charges	20	42
Short-term borrowings and current portion of long-term borrowings	326	-

	Year ended 31 December	
	2007	2006
Purchases of materials, goods and services	1,682	1,590
Sales of materials	793	1,071



33 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Operating environment. Whilst there have been improvements in economic trends in the country, the economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the Russian Federation, extensive currency controls and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks as well as their effect on the Group's future operations and earnings, are not predictable.

Legal proceedings. During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated financial statements.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing rules, which were introduced from 1 January 1999, provide the possibility for the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of certain controllable transactions, provided that the tax authorities prove that the transaction price established by the parties differs from the market price by more than 20 percent.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20 percent from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

The form of the Sibur Group intercompany transactions would generally meet the literal requirements of the applicable tax legislation and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of the Russian transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.



33 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (CONTINUED)

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these IFRS consolidated financial statements.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Under current levels of enforcement of existing legislation, management believes that there are no probable liabilities for environmental damage, which will have a materially adverse effect on the financial position or the operating results of the Group.

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees in the areas of its production operations, including contributions towards the construction, development and maintenance of housing, hospitals, transportation services, recreation and other social needs. Such funding is expensed as incurred.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings. The Group's management believes that the Group is in compliance with its covenants.

Capital commitments. In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Board of Directors has approved a capital expenditure budget for the year 2008 of RR 40,925 (for year 2007: RR 21,600).

34 POST BALANCE SHEET EVENTS

In March 2008, the Group registered rouble denominated redeemable non-convertible documentary bonds of RR 120,000 maturing in 2015. The coupon is paid semi annually and the rate set prevailing market rate at the beginning of each coupon period.

In March 2008, Board of Directors of the Group approved credit facilities with Gazprombank of RR 120,000 with interest rate up to 12.5 percent paid annually and maturing before 2010.

In March 2008, Board of Directors of the Group approved a share based compensation program for the key management personnel. The details of the program are being currently finalised.